

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 INT-05 SP-02 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 CIAE-00

COME-00 FRB-03 INR-07 NSAE-00 USIA-06 XMB-02 OPIC-03

LAB-04 SIL-01 L-03 H-02 EUR-12 AGR-05 GSA-01 FEA-01

FPC-01 OES-03 /107 W

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R 221729Z SEP 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 4859

LIMITED OFFICIAL USE SECTION 1 OF 2 SANTIAGO 6361

E.O. 11652: N/A

TAGS: EFIN, CI

SUBJECT: CHILE'S BALANCE OF PAYMENTS

REF: A. STATE 199613

B. STATE 212374

1. SUMMARY. IMPORT REDUCTIONS INDUCED BY ECONOMIC RECOVERY PROGRAM (ERP) AND EXPANDED SHIPMENTS OF NON-TRADITIONAL EXPORTS HAVE GREATLY ASSISTED CHILE IN IMPROVING ITS BALANCE OF PAYMENTS (BOP) FOR 1975. ALTHOUGH NOT SPECIFICALLY REQUESTED IN REFTTEL A, EMBASSY IS FORWARDING HERewith ITS ESTIMATES FOR 1976. CHILE'S 1975 BOP IS NOW ALMOST COMPLETELY DETERMINED, HENCE U.S. POLICY DECISIONS IN COMING MONTHS WOULD AFFECT PRINCIPALLY CHILE'S 1976 BOP RATHER THAN THAT OF CURRENT YEAR. SO FAR, BOP OUTLOOK FOR 1976 APPEARS SUBSTANTIALLY BETTER THAN 1975, ALWAYS ASSUMING COPPER PRICES SHOW AT LEAST MODERATE INCREASES, IMPORT PRICES REGISTER NO MORE THAN MODEST RISES, AND INTERNATIONAL ECONOMIC ENVIRONMENT IS HOSPITABLE. ON THESE ASSUMPTIONS--BY NO MEANS TO BE TAKEN FOR GRANTED--THE EMBASSY BELIEVES LEVEL OF REQUIRED USG ASSISTANCE IN 1976 SHOULD BE LIMITED OFFICIAL USE

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NO GREATER THAN IN 1975. END SUMMARY.

2. FOR 1975, GOC DOES NOT PREPARE SEMI-ANNUAL BOP REPORT AND
CENTRAL BANK (CB) CLAIMS THAT INFORMATION IS TOO INCOMPLETE
TO MAKE JUDGMENT FOR FIRST HALF OF 1975. WE ARE FORWARDING 1975
PROJECTION PREPARED BY CB IN JULY AND EMBASSY ESTIMATES THAT FILL IN
LACUNAE IN CB FORECAST.

3. IN MILLIONS OF US DOLLARS

A. EXPORTS (FOB) 1972 1973 1974 1975 1976 2)

TOTAL MERCHANDISE 849 1,349 2,045 1,530 1,988

COPPER	618	1,103	1,557	875	1,148
IRON ORE	57	56	73	101	110
IODINE/NITRATES	23	30	61	48	40
AGRIC. & FISHING	21	25	61	118	150
PAPER, CELLULOSE					
& CARDBOARD	27	30	115	103	175
OTHER MANUFACTURES	82	90	163	249	330

B. IMPORTS (-)

TOTAL MERCHANDISE 1,103 1,608 2,239 1,824 1,962

FOODSTUFFS	N.A.	595	472	337	237
WHEAT	N.A.	224	198	88	131
OTHER CONS. GOODS	N.A.	64	70	70	70
INTERMED. GOODS	580	664	1,359	1,122	1,305
FUELS & LUBRICANTS	N.A.	120	373	341	390
RAW MATERIALS	N.A.	242	611	510	600
SPARE PARTS	N.A.	252	278	200	235
LARGE COPPER COMP					
ANIES	N.A.	50	97	71	80
CAPITAL GOODS	165	285	338	295	350
COPPER COMPANIES	N.A.	N.A.	38	35	30
OTHER	N.A.	N.A.	300	260	320

C. SERVICES (NET) -98 -36 -39 55 15

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D. TRADE BALANCE -352 -295 -233 -239 41

E. NET REMITTANCES	-35	-85	-150	-264	-293
REMITT. FM ABORAD	25	4	26	15	12
REMITT. TO ABROAD 8-)	60	89	176	279	305
LONG-TERM DEBT	18	39	116	200	220
LINES OF CREDIT	17	50	51	55	55
OTHER	25	-	9	24	30

F. CURRENT BALANCE -387 -380 -383 -503 -252

G. CAPITAL OUTFLOWS (-)

AMORTIZATION LONG

TERM DEBT 89 1)# 112# 696 502 520

#. CAPITAL INFLOWS 148 243 939 609 632

DEBT RENEGOTIATION N.A. N.A. 424 1) 256 214

CAPITAL GOODS

CREDIT N.A. N.A. 250 220 300

PL 480 - - 55 58

LOCAL SPENDING AID

AGENCIES N.A. N.A. 64 20 25

FOREIGN INVESTMENT N.A. N.A. 12 35 60

REPATRIATED CAPITAL - - 134 -

HOUSING GUARANTEE 22 2) 33

I. BAL. OF PAYMENTS

SURPLUS OR

DEFICIT (-) -328 -249 -140 -396 2) -140

J. COMP. CAP.

MOVEMENTS 328 249 140 396 2) 140

IMF STANDBY 95 2) 24 2)

IMF OIL FACILITY 71 2) 163 2) 140

MEDIUM TERM BANK

LOAN 150 2)

NET SHORT-TERM

CAPITAL MOVEMENTS -26 2) 59 2)

K. NET INTERNATIONAL

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RESERVES (JUNE 30) -325 -914

NET PAYMENTS

1) IMF ESTIMATE

2) EMBASSY ESTIMATE

N.B. ALL DATA CENTRAL BANK EXCEPT WHERE OTHERWISE INDICATED.

4. 1975 EXPORTS - CHILE'S EXPORT RECEIPTS IN 1975 WILL DROP FROM 1974 LEVELS AS RESULT OF DECLINE IN COPPER PRICE FROM AVERAGE LME OF 93 CENTS A POUND IN 1974 TO 58 CENTS IN 1975 AND CUTBACK IN COPPER SHIPMENTS OF ABOUT 10 PERCENT IN ACCORDANCE WITH CIPEC AGREEMENT. EXPORTS OF NITRATES, CELLULOSE AND PAPER PRODUCTS ARE ALSO BEING AFFECTED BY SHARP PRICE DECLINES AND REDUCTION IN EXPORT SALES. EXPORTS OF AGRICULTURAL AND MANUFACTURED GOODS, ON THE OTHER HAND, ARE RISING SHARPLY DUE BOTH TO

MORE REALISTIC EXCHANGE RATE POLICY AND MORE FAVORABLE TAX TREATMENT ACCORDED TO EXPORTS. MOST IMPORTANT, DECLINES IN DOMESTIC CONSUMPTION HAVE FORCED MANY PRODUCERS FOR FIRST TIME TO SEEK MARKETS ABROAD.

5. IMPORTS. IMPORTS FOR 1975 ARE EXPECTED TO DECLINE ABOUT 18 TO 19 PERCENT FROM THEIR 1974 LEVELS. WITH GDP EXPECTED TO FALL BY 5 TO 10 PERCENT AND MANUFACTURING ACTIVITY BY 20 PERCENT 1975, DOMESTIC DEMAND FOR INTERMEDIATE GOODS WILL FALL MORE OR LESS PROPORTIONATELY. SEVERE CUTBACKS IN GOVERNMENT INVESTMENT PROGRAMS WILL REDOUND ON IMPORTS OF CAPITAL GOODS.

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INFO OCT-01 ARA-06 ISO-00 INT-05 SP-02 AID-05 NSC-05

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LAB-04 SIL-01 L-03 H-02 EUR-12 AGR-05 GSA-01 FEA-01

FPC-01 OES-03 /107 W

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R 221729Z SEP 75

FM AMEMBASSY SANTIAGO

TO SECSTATE WASHDC 4860

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6. 1975 TRADE AND CURRENT ACCOUNT BALANCES. NET DROP IN EXPORT RECEIPTS FOR 1975 WILL BE PRETTY WELL MATCHED BY DECLINE IN IMPORT PAYMENTS. TRADE BALANCE DEFICIT OF \$239 MILLION PROJECTED BY CB FOR 1975 IS APPROXIMATELY SAME RECORDED IN 1974. MUCH LARGER SERVICE PAYMENTS ON LONG-TERM DEBT IN 1975 WILL CAUSE SUBSTANTIALLY GREATER CURRENT ACCOUNT DEFICIT.

7. 1975 CAPITAL FLOWS AND OVERALL BALANCE. SOMEWHAT SMALLER LONG-TERM DEBT AMORTIZATION OBLIGATIONS WILL BE MORE THAN OFFSET

BY DECLINES IN CAPITAL ASSISTANCE FLOWS AND REPATRIATED CAPITAL. OVERALL BOP DEFICIT THUS EXPECTED TO RISE FROM ABOUT \$140 MILLION IN 1974 TO ABOUT \$396 MILLION IN 1975.

8. 1975 FINANCING. GOC HAS SO FAR DRAWN ONLY SDR 20 MILLION ON 1975 IMF STANDBY AND IMF REP INFORMS US GOC PROBABLY WILL NOT DRAW ON REMAINING PORTION OF THAT FACILITY DURING BALANCE OF YEAR. GOC DREW DOWN REMAINDER OF 1974 OIL FACILITY IN EARLY 1975 AND IS EXPECTED TO USE HALF OF 1975 OIL FACILITY BEFORE END OF YEAR. MEDIUM-TERM BANK CREDIT AND/OR SHORT-TERM LOANS ARE EXPECTED COMFORTABLY TO BRIDGE THE REMAINING GAP.

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9. OUTLOOK FOR 1976. PRINCIPAL ASSUMPTIONS OF OUR 1976 FORECAST ARE A) AVERAGE LME COPPER PRICE WILL RISE TO 70 CENTS A POUND; B) GOC WILL PERMIT COPPER EXPORTS TO RISE TO FULL CAPACITY LEVEL OF ABOUT 900,000 TONS A YEAR; C) OIL PRICES WILL RISE BY 10 PERCENT ABOVE CURRENT LEVEL TO ABOUT C.I.F. \$13.75 A BARREL; D) PRICE OF IMPORTED WHEAT WILL AVERAGE ABOUT \$175 A TON; E) CHILEAN ECONOMY WILL ROECOVER TO ABOUT OR SLIGHTLY ABOVE 1974 LEVEL; F) ECONOMIC ADJUSTMENTS INDUCED BY EXCHANGE RATE AND OTHER ECONOMIC LIBERALIZATION POLICIES HAVE SHIFTED IMPORT DEMAND SCHEDULE DOWN SHARPLY; G) CHILE'S NON-TRADITIONAL EXPORTS WILL CONTINUE TO EXPAND AT A HIGH RATE. H) WE HAVE PROJECTED INCREASE IN 1976 AGRICULTURAL PRODUCTION WHICH SHOULD ENABLE CHILE TO REDUCE AGRICULTURAL IMPORTS BY ABOUT \$100 MILLION. THIS ROUGHLY CORRESPONDS TO CAUAS' ESTIMATE REFTEL B. IMF REP SHARES CAUAS' OPTISM. OTHER SOURCES LESS SANGUINE.

10. ON THESE ADMITTEDLY SOMEWHAT OPTIMISTIC ASSUMPTIONS WE PROJECT A BALANCED TRADE ACCOUNT TOGETHER WITH A SUBSTANTIAL (THOUGH MUCH REDUCED FROM 1974) CURRENT ACCOUNT DEFICIT. IN THIS CONNECTION, FAIRLY LARGE STOCKS SHOULD HELP TO HOLD DOWN IMPORTS AT BEGINNING OF ECONOMIC RECOVERY. LONG-TERM DEBT AMORTIZATION WOULD RAISE THE DEFICIT TO ABOUT \$772 MILLION (F PLUS G). WE SEE CAPITAL GOODS CREDIT (SOMEWHAT HIGHER IN 1976 DUE TO LARGER GOVERNMENT INVESTMENT PROGRAM AND GREATER VOLUME OF DISBURSEMENTS BY IFIS), LARGER FLOW FOREIGN DIRECT INVESTMENTS, DRAWDOWNS ON HOUSING GUARANTEE PROGRAM, PLUS LOCAL SPENDING BY AID DONORS PROVIDING ABOUT HALF NECESSARY FINANCING. THE BALANCE (ABOUT \$354 MILLION) WE SEE COMING FROM SOME COMBINATION OF IMF OIL FACILITY, DEBT RESCHEDULING, IMF STANDBY, PL-480 AND PRIVATE INTERNATIONAL LENDING.

11. EMBASSY BELIEVES THAT IN ABSENCE OF COPPER PRICES HIGHER THAN 70 CENTS A POUND CHILE IS UNLIKELY TO IMPROVE ON PERFORMANCE PROJECTED ABOVE. GOC IS OPTIMISTIC THAT NON-TRADITIONAL EXPORTS WILL MAKE UP MUCH OF SLACK IN NEEDED EXPORTS INDUCED BY CONTINUING LOW COPPER PRICES. MUCH OF THESE EXPORTS WOULD BE GENERATED

BY AGRICULTURAL SECTOR. WE DOUBT THAT CHILE CAN GENERATE BALANCED AGRICULTURAL ACCOUNT WITHIN ANOTHER YEAR GIVEN LIMITED SHORT-TERM PROSPECTS FOR EXPANDING PRODUCTION. MORE SUCCESS IS LIKELY IN CELLULOSE AND PAPER PRODUCTS SECTOR FOR WHICH WE HAVE MADE GENEROUS LIMITED OFFICIAL USE

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ASSUMPTIONS REGARDING PRICES AND EXPANSION OF SALES.

12. U.S. POLICY IMPLICATIONS FOR END OF 1975 AND 1976. APART FROM SUCH

EXOGENOUS FACTS AS LARGER RISES IN OIL PRICES, OR A FAILURE OF WORLD COPPER PRICES TO RISE, ONE PRIMARY CONCERN COLORS OUR BASICALLY OPTIMISTIC VIEW. THAT CONCERN IS THAT THE HARDSHIPS IMPOSED BY THE PRESENT AUSTERITY PROGRAM DO NOT PROVOKE POPULAR REACTIONS SUCH THAT THE GOVERNMENT WOULD BE COMPELLED TO RELAX IT BEFORE INFLATION IS SUPPRESSED. THIS WOULD LEAD TO RENEWED DOMESTIC DEMAND AND INCREASED IMPORTS, REDUCED EXPORTS, AND GROWING ECONOMIC AND POLITICAL INSTABILITY. IF, HOWEVER, THE ERP IS REASONABLY SUCCESSFUL, NEED FOR U.S. ASSISTANCE SHOULD BE NO GREATER THAN IN IMMEDIATELY PRECEDING YEARS.

13. IN CONCLUSION, WE NOTE FROM REFTEL B FINANCE MINISTER CAUSAS' OPTIMISM THAT CHILE MIGHT BE ABLE TO AVOID A DEBT RESCHEDULING EXERCISE IN 1976, POSSIBLY USING COMMERCIAL BORROWING TO BRIDGE THE GAP. WHEREAS SUCH VARIABLES IN THE BOP AS COPPER PRICES AND VOLUME OF NON-TRADITIONAL EXPORTS DO NOT DEPEND ON CHILE'S STANDING WITH ITS MAJOR CREDITORS, CHILE'S ABILITY TO OBTAIN COMMERCIAL CREDIT IS VERY MUCH LINKED TO THAT STANDING. THE QUESTION IS THEREFORE RAISED WHETHER THE AVOIDANCE OF A RESCHEDULING EXERCISE MIGHT HAVE AN ENCOURAGING EFFECT ON CHILE'S PRIVATE INTERNATIONAL BANKERS (THAT THE GOC DID NOT NEED IT) OR A DISCOURAGING ONE (THAT THE GOC KNEW IN ADVANCE THAT IT COULD NOT GET IT). WE HAVE NOT ATTEMPTED TO ANSWER THIS QUESTION IN OUR 1976 PROJECTIONS, BUT HAVE POSITED NO INCREASE IN THE LEVEL OF COMMERCIAL CREDITS, AND A RESCHEDULING EQUIVALENT TO \$214 MILLION. POPPER

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Message Attributes

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